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Finance Department

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Mayor Sharon Sayles Belton Council President Jackie Cherryhomes Council Members Citizens of Minneapolis City of Minneapolis, Minnesota

The Comprehensive Annual Financial Report (CAFR) of the City of Minneapolis (City) for the fiscal year ended December 31, 1998, is respectfully submitted. Responsibility for both the accuracy of the information and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations for the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

FORMAT

The CAFR is presented in three sections: *Introductory*, *Financial* and *Statistical*. The Introductory Section includes this transmittal letter, an organizational chart, a list of elected officials and a copy of the prior year's Certificate of Achievement for Excellence in Financial Reporting. The Financial Section includes the general-purpose financial statements, required supplementary information, and the combining and individual fund and account group financial statements and schedules, as well as the independent auditor's report on the financial statements and schedules. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

REPORTING ENTITY

The financial reporting entity includes all the funds and account groups of the City as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City is financially accountable for: (1) organizations that make up its legal entity; (2) legally separate organizations if its officials appoint a voting majority of an organization's governing body and either is able to impose its will on an organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government; and (3) governmental organizations that are fiscally dependent on it.

Blended Component Units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the following organizations are reported within the combining, individual fund, and account group financial statements:

- Minneapolis Community Development Agency (MCDA)
- Municipal Building Commission (MBC)
- Board of Estimate and Taxation (BET)

Discretely Presented Component Units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. The following organizations are reported as discretely presented component units:

- Minneapolis Library Board (Library Board)
- Minneapolis Park and Recreation Board (Park Board)

The following organizations are **Joint Ventures** of the City:

- Minneapolis/Saint Paul Housing Finance Board
- Minneapolis Neighborhood Revitalization Policy Board (NRPB)
- Minneapolis Youth Coordinating Board

The following **Related Organizations** do not meet the financial accountability criteria discussed above and accordingly, have been excluded from the City's general-purpose financial statements:

- Metropolitan Sports Facilities Commission
- Minneapolis Public Housing Authority (MPHA)

Complete financial statements for any of the listed organizations may be obtained as described in the Notes to the Financial Statements.

FINANCIAL REPORTING AND AUDITING

This CAFR has been prepared pursuant to state statutes of Minnesota and the City Charter which require an annual audit of books of accounts, financial records, and transactions of the City. Additionally, the audit is intended to meet the requirements of the Single Audit Act Amendments of 1996 and related United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. The independent auditor's report on the general-purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this CAFR. Under Minnesota statutes, the Office of the State Auditor (OSA) is charged with the responsibility of auditing cities of the first class, which includes the City. This report includes all of the funds and account groups of the City and its component units.

The independent auditor's report related specifically to the single audit is published separately in a Management and Compliance Report. The separate report contains a schedule of expenditures of federal awards, findings and recommendations along with City responses, and a report on the internal controls of the City including its compliance with laws and regulations. The management and compliance report will not modify, or affect in any way, the auditor's report on the financial statements. Copies of this report may be obtained from the City's Finance Officer.

INTERNAL AUDIT

The BET maintains responsibility for the internal audit function of the City, including boards and commissions that are a component unit of the City. Internal audit staff reports to the BET and works closely with an Audit Management Committee (AMC) composed of nine members. The City Finance Officer is chair of this committee. Eight of the nine seats on the committee are permanent and one of the seats is rotated between City departments, boards or commissions. The AMC approves the internal audit work plan, provides staff support to the Internal Auditor, and reviews all audit reports prior to formal presentation to the BET. The BET is described in the accompanying Notes to the Financial Statements.

CASH MANAGEMENT

The City's investment policy is to ensure that all revenues received by the City are promptly recorded, deposited, and invested in a manner that assures safety and minimizes credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Deposit Insurance or collateral was provided. The market value of collateral pledged must equal 110 percent of deposits not covered by insurance. All collateral on deposits was held by the Federal Reserve Bank of Minneapolis and the Notes to the Financial Statements detail the City's investment holdings by risk category as defined by Governmental Accounting Standards Board (GASB) Statement No. 3-Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements. Both the City and its three outside investment managers are required to exercise extreme caution in the use of derivative instruments and consider derivative use only when a sufficient understanding of the products, and the expertise to manage them, have been developed. The City's portfolio does not contain a material, or significant, amount of derivative type investments.

The City, using the Investment Management System portion of its finance system, is able to effectively pool funds for investment management purposes and distributes investment income daily to funds that earn interest. Also, the City Council has adopted a policy to apply a working capital charge to proprietary funds that may periodically have a deficit cash balance.

ECONOMIC CONDITION AND OUTLOOK

Minneapolis is the largest city in Minnesota and the center of finance, industry, trade and transportation for the Upper Midwest. Minneapolis is home to 368,383 people (1990 Census) and People of Color comprise an estimated 22% of the City's population. The Dakota Indians gave Minnesota its name - "sky-tinted water". French explorers searching for the Northwest Passage were the first Europeans to visit the region. In 1680, Father Louis Hennepin happened upon St. Anthony Falls. One hundred and forty years later, soldiers from nearby Fort Snelling constructed a sawmill and flourmill at the falls. By the 1840's the village of St. Anthony had been established on the east bank of the Mississippi and the village of Minneapolis on the West Bank. The two towns were soon linked by a suspension bridge. Minneapolis' first volunteer fire company was organized in 1862 and the community was chartered as a city in 1867. In 1872 Minneapolis and St. Anthony were united to form one city.

Over the years, Minnesota has consistently maintained, and been noted for, its quality of life in the areas of health, education, housing, employment, and quality of governmental services. Historically, Minneapolis was founded to process Minnesota grain with the tremendous power-generating capabilities of St. Anthony Falls on the Mississippi River. Today, the international corporations of Pillsbury, General Mills and Cargill are headquartered in the area and Minneapolis is a center for graphic arts, electronics, banking, insurance, metal fabricating, plastics, computers, and publishing. Minneapolis is also a nationally known medical center and produces many high technology medical products.

Forty-seven thousand students are enrolled in Minneapolis public schools and non-public school enrollment is 7,000. The main campus of the University of Minnesota is just minutes from downtown, ranks among the top twenty universities in the U.S., and is one of the largest universities with enrollment of approximately 37,000 students. Three professional major league teams with operations in Minneapolis attract attendance in excess of 2,000,000 annually. Minneapolis has 78 residential neighborhoods offering a broad range of housing to 161,000 households. More than 150,000 people work in downtown Minneapolis and each year there is an increase in housing opportunities in the downtown sector. There are 62 downtown blocks in Minneapolis connected by approximately five miles of skyways. The Twin Cities is second only to New York in per capita attendance at theater and art events and Minneapolis itself has more than 30 theaters, with the Guthrie Theater and the Children's Theater companies being recognized as two of the country's best theaters.

The core downtown area, which uses about eight percent of the land area, is comprised of a mixture of office and retail space largely connected by skyways. The downtown area, over the years, has expanded dramatically, initially contributing to a downturn in values due to a temporary oversupply of commercial office space. In support of this expansion, the City has provided numerous strategically located parking facilities on the periphery of the downtown core for workers, shoppers, and other downtown visitors and has instituted, in partnership with local retailers, a related downtown parking validation program. The temporary oversupply of office space has been offset by record breaking leasing years and the City has, as of the end of the fourth quarter of 1998, a Class A vacancy rate of 4.4 percent, as compared to 16 percent in 1993, and a Class B vacancy rate of 8.2 percent. In response to this tight market for office space, there are many development projects in downtown Minneapolis that have been proposed, scheduled for, or under, construction or recently completed.

The downtown area also includes a City owned and operated convention center that attracts national and international conventions and other major events. The convention center currently contains 800,000 square feet with 280,000 square feet of exhibit space. To continue to attract world class conventions, the City will be completing construction of the facility as originally planned by adding an additional 670,000 square feet with 196,000 square feet devoted to two additional exhibition spaces. The project also includes the addition of 63 meeting rooms (for a new total of 110 meeting rooms), expansion of kitchen areas, 34,000 square feet devoted to a prefunction lobby, and a 3,400-seat auditorium with three 440-seat turntables that create additional meeting room areas. The estimated total cost of completing the convention center is \$194 million and occupancy of the new portion of the facility is scheduled for late 2001. To finance the completion of the center, the State of Minnesota has allocated \$87,145,000 in the form of a grant to the City to retire existing debt on the facility. The City will issue bonds for the completion project staged to conform to the construction schedule. It is estimated that completion of the center will generate 4,000 new jobs and \$14 million in sales taxes. Major new exhibitors have already booked into the facility based on these plans.

The Historic Orpheum and State Theatres, which are owned by the MCDA and located in the downtown area, attract major Broadway productions in addition to a broad mix of musical, theatrical and other entertainment offerings. On a combined basis, the two theatres generated nearly \$21.9 million in ticket sales for 324 shows attended by over 490,000 patrons.

Employment and Population

According to the Minnesota Department of Economic Security, the state unemployment rate measured 2.6 percent as of March 1999, and the Minneapolis' jobless rate was 2.0 percent compared to the national unemployment rate of 4.4 percent. The Twin Cities metropolitan area is among the fastest growing metro areas in the northern U.S., both in terms of employment and population. The Twin Cities population continues to grow with the current population at 2.8 million and growth of 2.9 percent projected by the year 2003.

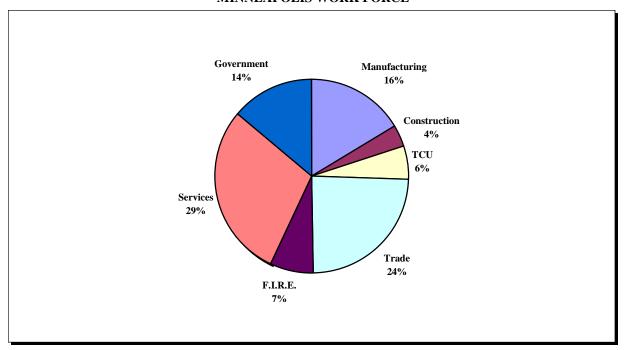
The state's economy maintained its vitality this past year and the Minnesota Economic Index, which is a measure of wage and salary employment, unemployment insurance claims, and weekly manufacturing hours rose to an all-time high of 124.8. By comparison, the United States index stood at 120.4. In August 1998, Minnesota outperformed the country with the lowest unemployment rate of all states.

Most sectors of industry added jobs during 1998, and manufacturing rebounded from a two-year low adding 10,300 jobs. The finance, insurance, and real estate sector (F.I.R.E.) surpassed the national rate of growth by nearly two percent. The number of construction jobs increased by nearly 4,400 partly as a result of growth in the nonresidential construction starts.

Fortune 500 companies in the Twin Cities area include Dayton Hudson, Super Valu, 3M, United Healthcare, Northwest Airlines, Norwest Corp/Wells Fargo, Honeywell, St. Paul Companies, General Mills, Lutheran Brotherhood, and Northern States Power. The rank of these companies in the roster of Fortune 500 Companies ranges from 34 to 498. The presence of Northwest Airlines, as an airline hub, assures direct connections throughout the United States and the world and secures Minneapolis as a destination for business as well as tourism and conventions.

The chart on the following page displays the diverse nature of the Minneapolis work force:

EMPLOYMENT SECTORS MINNEAPOLIS WORK FORCE



*F.I.R.E. -Finance, Insurance, and Real Estate.

**T.C.U. -Transportation, Communications, and Utilities.

Housing

The age of residential buildings in the city reflects an older housing supply with only twelve percent of the structures having been constructed since 1960. Consequently, 20.8 percent of the city's housing units are rated as below average. However, single family detached homes make up the majority of homestead properties and over three-quarters of the single attached units and one-half of the duplex structures are owner occupied. To address the housing issues facing the City, four housing principles have been adopted as follows:

- The variety of housing types throughout the city, its communities and the metropolitan area shall be increased, giving prospective buyers and renters greater choice in where they live.
- The management, quality and balance of subsidized housing throughout the city and the metropolitan area shall be improved.
- Housing markets that are already strong shall be preserved and strengthened.
- The quality of the housing stock shall be improved.

The MCDA, in cooperation with the Greater Minneapolis Metropolitan Housing Corporation (GMMHC), the Minneapolis/St. Paul Family Housing Fund, the Minneapolis/St. Paul Joint Finance Board, and the Neighborhood Revitalization Program (NRP) have developed a variety of programs that are used to create and finance affordable housing opportunities in Minneapolis. A sample of these activities includes the following 1) Revenue bond financed home mortgages, 2) Federal CDBG loans and grants for home improvements including lead abatement, 3) Minnesota Housing Finance Agency home improvement loans and accessibility grants, and 4) HUD Rental Rehabilitation grants and matching funds for home improvements.

Revenue Base

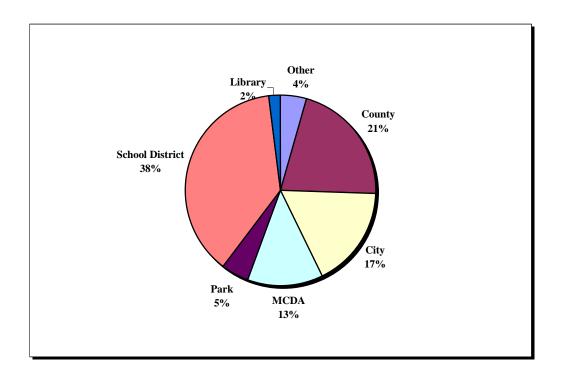
Minnesota's economy reflects, or exceeds, the robust economy that is present today in the U.S. Inflation and unemployment are at all time lows and Gross Domestic Product growth is accelerating without leading to inflation. Minnesota has benefited from the state of the economy such that budgetary surpluses over the last two years have been used, in part, to provide income tax refunds amounting to 20 percent of real estate taxes paid for 1997 as well as for 1998. Renters may claim a rebate of 18 percent of rent paid as such amount is defined as "rent constituting property taxes". The State Legislature is considering a "permanent" tax cut and further rebates to taxpayers in the face of continuing surpluses. In 1997, the legislature enacted major changes to the property tax system to be effective for 1998. The effect of the legislation, absent any change in property values, is to reduce the Tax Capacity in Minneapolis by approximately 10.8 percent. The final City tax capacity rate for 1999 is 42.488, an increase of 8.8 percent over the 1998 rate of 39.059. The certified levy for 1999 is \$114.7 million as opposed to \$109.6 million for 1998.

The following additional changes or forecasts are applicable to the City:

- The taxable net tax capacity of the City decreased to \$267.9 million in 1998, which represents a four percent decrease over 1997. This is attributable to the reduction of property tax classification rates, primarily for commercial, industrial and apartment buildings. For comparative purposes, the total assessed market value for the City increased by eight percent in 1998 to a new total of \$15,284,334,000.
- The City is projecting receipt of \$72,784,384 of State Local Government Aid during 1999, which is about \$2.3 million, or 3.3 percent, more than the amount received in 1998.
- Sewer rental rates were increased 7.3 percent as of January 1, 1999 (a monthly increase of \$1.21 for each customer using a hypothetical consumption of 600 cubic feet).
- Water rates were increased 6.4 percent effective January 1, 1999 (a monthly increase of \$0.77 for each customer based on a hypothetical consumption of 600 cubic feet).
- Sales taxes supporting the Minneapolis Convention Center (MCC) and related facilities remain strong with 1999 revenue projections running ahead of 1998 which increased by approximately 11.0 percent over 1997.
- Franchise fee collections were about 6.7 percent lower as a result of lower gas consumption over the mild winter.
- Total property tax collections (including delinquent collections) were 99.5 percent of the total tax levy and outstanding delinquent taxes at the end of 1998 were at 1.7 percent of the levy as opposed to 4.4 percent as recently as 1992.

The chart on the following page illustrates the distribution of tax levies, including MCDA projected Tax Increment collections of \$60.3 million, among the various taxing jurisdictions for 1999:

DISTRIBUTION OF PROPERTY TAXES BY JURISDICTION



MAJOR INITIATIVES

Annually the City adopts goals that serve as a blueprint for setting priorities, dedicating time, and expending resources. The eight City goals are:

- 1. Increase the City's population and tax base by developing and supporting housing choices citywide through preservation of existing housing and new construction.
- 2. Increase safety and confidence in the City of Minneapolis through effective and efficient law enforcement and prosecution, and criminal justice system reform.
- 3. Strengthen the participation of all citizens, including children, in the economic and civic life of the community.
- 4. Create strong vital commercial corridors citywide through mixed-use development, including a variety of businesses and creative housing.
- 5. Improve public transportation to get people to jobs, school and fun.
- 6. Preserve, enhance and create a sustainable natural and historic environment citywide.
- 7. Market downtown as a place to live, work, play and do business.
- 8. Strengthen our City through infrastructure investments.

Individual City departments and management systems attained significant achievements in pursuit of City goals in 1998, as summarized below:

Assessor

- With three years of success in extending a computer assisted mass appraisal (CAMA) valuation methodology to single family residential homes, more wide spread application was developed in 1998. In addition to homes, commercial and industrial land outside the Central Business District and condominiums/townhomes were valued in this manner.
- The residential real estate market continues to be very strong, resulting in an expanding tax base. The 1998 residential statistics produced by the Minneapolis Area Association of Realtors showed that City Multiple Listing Service districts were seven out of the top ten in price increases from 1997 to 1998.
- Downtown development remains strong with the first of the "new wave" of office towers being completed for the January 2, 1999, assessment. Target headquarters at 1000 Nicollet Mall was completed with a total market value of \$62 million. In spite of an expanding tax base totaling \$15.3 billion, appeals with the Board of Review are down by 50% and Tax Court cases are down by 25% as compared with the previous year.

Attorney

- The Attorney's office established a "Top Offender" prosecution team to track chronic misdemeanants and to develop strategies to address repeat offenders.
- For the Alternative Dispute Resolution program, a community mediator was hired to analyze the programs. The mediator also attended community meetings to determine the services that would help the community. The office then designed and implemented a mediation program.
- As a result of the "Community Right to Know" Act, staff met with members of the Minneapolis Police Department, Hennepin County Court Administration, and the Information & Technology Service department of the City to identify existing data sets and analyze the Act's requirements. The legislative act, which brought \$100,000 to the City, requires that criminal justice information be provided by City neighborhood areas.
- Staff translated important information and legal documents into six foreign languages. The purpose of the project was to facilitate the victims understanding of their rights and to form a better relationship between the legal system and the community.

Civil Rights

- The department collaborated with the University of Minnesota and the Urban Coalition to determine the barriers to homeownership by People of Color and funded a study to look at the mortgage lending industry to identify the "best and worst" lenders in the metropolitan area.
- The department increased its on-site construction site visits from bi-weekly to weekly to expand its compliance activities.
- Complaint investigation practices have been revised to reduce the investigation of a complaint to 180 days or less. As a result, 92 percent of all cases currently in the department are less than 18 months old.
- In collaboration with the Department of Housing and Urban Development, "Fair Housing" inserts were developed and distributed as water bill inserts to 95,000 residents. This initiative served as a model for other communities throughout the United States.
- Departmental materials, including handouts, were updated and translated into nine different languages (Somali, Spanish, Hmong, Simplified Chinese, Traditional Chinese, Vietnamese, Cambodian, Russian, and Laotian).

Clerk

- Use of the City's Web site was expanded to include Ward Pages, Council Actions, and the Code of Ordinances. Hard copy versions of the Code of Ordinances have been reduced from 250 to 150.
- The department assisted with the transition of the Minneapolis Advisory Committee on People with Disabilities, and the Minneapolis Advisory Committee on Drug and Alcohol problems to the Department of Health and Family Support. The department also participated in the redesign of the "Claims Process" and its subsequent transfer to the Risk Management Division of the Finance Department.
- During 1998, the department completed the citywide General Retention Schedule for records including sections on Finance and Accounting, Human Resources, Health and Safety, Administrative, Property and Equipment, and Legal. Approval from the State Records Disposition Panel is pending.

Coordinator

The primary roles of the City Coordinator are to assist the Mayor and City Council in defining city policies and establishing priorities; mobilize the Charter Department Heads and Coordinator's staff to implement the Mayor's and Council's priorities; and to strengthen the management systems of the City.

In support of various City goals, highlights of 1998 included: Orientation of a "newly elected" Council; Strategic Planning retreats that led to "new" City goals and a Mayor/Council action plan; Obtaining state funding for the Convention Center completion; Empowerment Zone planning and designation; Improving Labor-Management relations; Organizing in relationship to a "Near North" project; Establishing "new" Central Library and Avenue of the Arts implementation teams; and establishing a working relationship with the state's new governor and his staff.

The management systems and operations of the City that the Coordinator oversees are: Finance, Human Resources, Information & Technology Services, Intergovernmental Relations, and Operations & Regulatory Services. A breakdown of their initiatives and accomplishments for 1998 follows:

Finance

- The Procurement Division reviewed and established procurement procedures for the Convention Center project and continued its ongoing participation in the steering committee.
- The Management Analysis Division was actively involved in approximately 25 projects and initiatives including: Central Stores study; report on Minneapolis Park and Recreation Board/Public Works service overlaps; utility billing ordinance revision; creation of a comprehensive risk management division; and, report on the Optical Character Reader function of the Cash and Revenue Management Division check processing unit.
- The Utilities Billing Division continued to manage the process of securing a new Utility Billing/Customer Information computer system and continued to manage the billing and collection of over \$110 million in sales revenues.
- The Risk Management and Claims Division assisted in setting up a loss prevention program for the Convention Center Project; selected a Managed Care Provider for Workers' Compensation; initiated and evaluated a pilot program for administration of claims at a Staff Claims Committee as opposed to the City Council; and, revised claims procedures to facilitate payments to claimants without unnecessary delays.
- The Accounting Division began a process to decentralize authority and responsibility for processing of payments by component units; implemented HUD's mandated Integrated Disbursement Information System that is used to draw down funds; implemented the Client Server version and upgrade of its finance system; assumed full management responsibility for a new Human Resource Information System and began planning for a 1999 upgrade; and improved the timing, processes, and content of financial reporting (CAFR).

- The Cash and Revenue Management Division continued to assist with utilization of banking technologies in automating bank reconciliations, developing direct debits for utility bills, and expanding use of electronic funds transfers. Additionally, the Division assisted with the finance system upgrade by managing the majority of "Acceptance Testing".
- The Financial Operations Division continued to update/develop "Service Agreements" that define services to customer departments and provided a wide range of "personnel related" services to the Department as a whole. Additionally, the Division began work on a cost accounting project and a grants management redesign project.
- The Financial Planning and Budget Division refined a Policies and Procedures manual; assisted in conversion of a "Report Engine" to conform to a new desktop standard; provided staff support for the "Priorities 99" process.

Human Resources

The Human Resources Department continued its HR Reform Initiative throughout 1998 and accomplished the following:

- Developed new practices for exempt employees in accordance with the Fair Labor Standards Act and created a new performance management system for exempt employees.
- Implemented a plan for a Welfare to Work Program, providing two different on-the-job training options for people currently on public assistance.
- Initiated a Workforce Planning model that will help department heads anticipate and plan for future staffing needs.
- Implemented a Return to Work Program that helps injured workers return to work, even on a limited basis, as soon as appropriate.
- Negotiated a new three-year self-insurance dental plan that will not increase costs and will save over \$120,000 in administrative fees.
- Implemented the Position Control module of the new payroll system to significantly improve budget and full-time-equivalent position control.
- Negotiated 16 collective bargaining agreements that met goals of the City and provided equitable terms and conditions of employment for all bargaining units.
- Continued to increase the types and numbers of training programs delivered and increased employee participation by ten percent to over 3,300 sessions in 1998.

<u>Information & Technology Services (ITS)</u>

In 1998, ITS continued to make progress toward supplying and supporting efficient and reliable information systems through collaboration with its partners. ITS balanced its focus between improving business applications, IT infrastructure, Year 2000 compliance, ITS management practices, and telecommunications. ITS was involved in the following major initiatives:

- A committee of department heads was established to outline City goals and to select a software vendor for a Geographical Information System.
- A Business Inspection and Information System was implemented to consolidate several application processes and to provide data to multi-department applications.

- Fire Stations were connected to the city network and now have access to E-mail and desktop computers with upto-date tools to automate their work.
- Assessment of potential Y2K issues continued with life and safety issues receiving first priority in funding and correction.
- ITS continued to lead the City's Strategic Information Systems Planning process which is a citywide approach to align technology with goals and insuring a reasonable payback and benefit from technology investments.

Intergovernmental Relations (IGR)

To serve as a valuable and essential resource for the City in its policy development, priority setting, issue management, and governmental relations initiatives, the IGR department developed a "Strategic Plan" to effectively represent the City's policies and priorities before federal, state and regional governments.

Major issues facing the city will guide the City in its 1999 legislative package in the following areas: Municipal Financing, Public Safety, Housing and Economic Development, City Livability, and Transportation/Transit. Activities in 1998 included:

- Assisted with the successful completion of a grant application seeking Empowerment Zone designation for Minneapolis.
- Conducted the annual "Home Tour" in partnership with the MCDA to promote living in Minneapolis.
- Reopened negotiations with the City's cable provider regarding shared interests for use of the cable capacity.
- Assisted with minor productions and major feature films as Minneapolis continues to experience growing recognition as a place to make movies.

Operations & Regulatory Services

This department has a wide range of responsibilities that include both regulatory and service functions. Regulatory services are the function of the Licenses and Consumer Services Division as well as the Inspections Division. Licenses and Consumer Services includes Traffic Control, Animal Control, the Lead Abatement Program, Environmental Health and Licenses. The Inspections Division consists of inspections programs in housing, rental licensing, hazardous buildings, trades, permits, zoning and environmental management. Operations involve the Minneapolis Convention Center (MCC). In 1998:

- The department implemented a new Coordinated Action Program, the mission which is to develop systematic
 approaches to service coordination and tie together three distinct areas of city government: enforcement
 (Including Regulatory Services and Police); Public Works capital improvement and operations; and community
 development programs.
- A new Business Inspection and Information System to automate permit issuance, field inspection and licensing activities was implemented during 1998.
- The department also developed a plan for customer based "one-stop-shopping" at the City's Public Service Center.

The MCC is one of the primary economic engines driving the success and vitality of downtown Minneapolis and generates sales tax revenues and other economic benefits for the region and the State. Occupancy of the three exhibit halls averaged 85.6 percent, which is considered to be past the maximum or full occupancy, by industry standards. The MCC hosted 551 events during 1998 that were attended by nearly one million people. The estimated economic impact in terms of dollars spent by those in attendance was over \$125 million.

Fire

For the first time in many years, the Fire Department has introduced an innovative approach to eliminate overtime and increase staffing. Once implemented, a more efficient response to fires and emergencies will be provided to the citizens of Minneapolis. This effort was only possible to achieve through the collaborative effort of the Fire Administration and the Firefighters union. It is called "Bell Curve Staffing" and will eliminate hireback overtime while saving the City approximately \$1 million per year.

As the Fire Department moved forward to achieve this goal by hiring to full staffing levels, cooperation from the African American Professional Firefighters Association, the Native American Firefighters Association, the Woman's Firefighter Association and the Firefighters Advisory Steering Committee all contributed to this success. The end result was the recruitment of a well qualified, diverse workforce.

The Fire Department also moved toward the next century by installing new computer hardware in all of the fire stations. The department began the process of converting the Fire Records Management System to software that is Y2K compliant. These upgrades will allow us to provide uninterrupted and more efficient service to the citizens of Minneapolis.

- During 1998, the department responded to 22,362 medical emergency alarms and 10,703 fire alarms, as compared to 22,265 and 10,669 respectively in 1997. Average response time remained constant at 3.3 minutes.
- Total losses from fires were \$10.5 million in 1998 which represents a 19% increase from the previous year.
- The Fire Prevention Bureau Inspectors performed 2,748 inspections in 1998, which resulted in the correction of 3,775 hazardous conditions.

Health and Family Support (HFS)

In 1998, Health and Family Support continued its process of integrating Health and Neighborhood Services into a single department that addresses the City's human infrastructure. Highlights for 1998 include:

- Coordinated senior forums (Safety and Security, Livability and Housing, Transportation and Social Connectedness), that provided the basis for the report "Older Adults in Minneapolis: Contributions, Resources, Needs".
- Worked with City officials, Hennepin County officials, senior service providers and senior residents on a successful Task Force proposal for the development of the Senior Coordinating Board (SCB). The SCB will coordinate the City, County, State, private and non-profit resources to meet the needs of seniors through policy initiatives.
- The department was a founding partner of Healthy Learners Board, a collaboration of school, public and private partners working towards improving the health of Minneapolis students and was a major partner in the hugely successful immunization campaign in the fall of 1998 to have all students up to date on their immunizations.
- A series of key reports were produced on public health issues in Minneapolis, including: SHAPE (Survey Healthy Adults Population & Environment): 1998 Initial Findings Report (general overview of health of Minneapolis' citizens); Project LID (Lower Infant Death) Report, including a press conference; STD (Sexually Transmitted Diseases) Report, with press conference and subsequent community health promotion initiative and media campaign.
- Minneapolis Employment and Training was one of only 42 out of 654 Service Delivery Areas in the U.S. that received membership in The Enterprise, a national quality initiative in both adult and dislocated worker programs.

- Provided rental housing information, (via telephone, walk-in or scheduled appointment) referral and court preparation services for more than 7,800 tenants, information and referral services to more than 1,000 landlords, and general information regarding housing to more than 500 individuals, community and public agency employees.
- The laboratory conducted nearly 62,000 tests on approximately 24,000 specimens, of which, 11,629 tests were on 4,324 drug samples submitted by metropolitan police departments to aid in prosecution of criminals.
- The Summer Youth Program provided employment opportunities to 1,525 youth with over one-third successfully completing the educational activities in the program. A total of 600 young people participated in the School-To-Work program during the year.
- In cooperation with Hennepin County, provided employment and training services to 9,216 welfare recipients with 646 leaving welfare due to employment at an average wage of \$9.37 per hour. Of the total, 2,767 are working at an average wage of \$7.81 per hour and continue to receive partial welfare benefits and 1,887 are attending some form of education program. Low-income adult programs provided services to 825 economically disadvantaged residents with 678 being placed at an average wage of \$8.58 per hour. Dislocated workers programs provided services to 658 individuals, with 377 being placed at jobs averaging \$14.30 per hour or 97% of their previous wage.

Minneapolis Community Development Agency (MCDA)

The MCDA, the development arm of the City, is guided in its activities by Focus MCDA: Future Directions and Priorities, a business plan that is centered on five goals derived from the 1999 City Goals adopted by the City Council and the mayor in April 1998. Major accomplishments during 1998 include the following:

- The National Trust recognized the MCDA for historic preservation for its efforts in preserving over 100 historic structures over the last two decades.
- The MCDA received \$3.4 million from the Metropolitan Council and the Minnesota Department of Trade and Economic Development to clean up four contaminated sites.
- Construction was completed on five industrial projects totaling 757,000 square feet of new development, retaining 466 jobs and creating 492 new jobs in the city.
- The phenomenal growth in downtown Minneapolis continued in 1998 with the approval of the Target Store project on Nicollet Mall, the Hines Office Tower project at Sixth and Nicollet and the acquisition of the Mann Theater.
- Construction or renovation was completed on seven neighborhood commercial projects throughout the city that provide over 204,000 square feet of retail goods and services, preserve 187 jobs and create over 80 jobs.
- Renovation, stabilization and clean up of historically significant buildings and sites in the downtown riverfront
 area continued in 1998, including the Milwaukee Depot Freight House, the Milwaukee Depot and train shed and
 the Washburn Crosby Mill complex.
- For the third year in a row, the MCDA's business financing programs broke production records, facilitating over \$207.7 million in financing for 180 Minneapolis businesses, ranging from small start-ups making use of working capital and commercial renovation funds to large industrial manufacturing projects using Small Business Administration 504 program or revenue bond financing. Companies assisted report that they intend to create 494 new jobs as a result of the financing assistance.
- The MCDA's Housing Development Department acquired 63 parcels, sold 129 parcels, demolished 61 structures, completed construction or rehabilitation on 1,431 housing units, and provided financing for 1,933 housing units in 1998.

- A developer was selected for the last single-family lot in the Hiawatha Corridor. To date, 61 single-family homes and three double-family homes have been developed. Six new homes have been privately constructed in the immediate area, with three more planned for 1999. The first home in the corridor sold for \$87,000 and the last homes have sold in the \$150,000 to \$200,000 range.
- MCDA residential finance programs provided mortgage and home improvement loans totaling more than \$28 million to 596 customers in 1998.
- The MCDA's NRP/Citizen Participation Department provided funding to 60 neighborhood groups representing 74 neighborhoods, and facilitated the expenditure of \$20.6 million in NRP funds for home improvement loans and grants, school and park improvements, infrastructure investments and support for neighborhood organizations.
- The MCDA developed and implemented the first two of three phases of the Management Information Network System (MINS), an information management and reporting system that will have long-term positive effects on the way the MCDA does business, provides information and interacts with elected officials, other city departments, neighborhoods and other stakeholders.

Neighborhood Revitalization Program (NRP)

As more fully described in the Notes to the Financial Statements, the NRPB was established in accordance with a Joint Powers Agreement involving several local jurisdictions. Funding for the NRP comes from MCDA tax increments of \$20 million per year for 20 years under special state legislation enacted in 1990.

- By the end of 1998, 51 of the possible 66 neighborhood action plans had been approved by the NRPB and the City Council. An additional 13 neighborhoods had First Step Plans approved.
- NRP expended \$20.6 million for 1998 as compared to \$2.9 million for 1992.
- Obligations for implementation of neighborhood action plans totaled \$174 million as compared to \$6.3 million at the end of 1991.
- Major projects completed in 1998 in which NRP was a partner included the rehabilitation of the Stevens
 Community Apartments, improvement of the Anderson School/Stewart Park complex, renovation of Mueller
 Park, rehabilitation of the Band Box restaurant, expansion and renovation of Hosmer Library and the opening of
 the Wendall Phillips Community Development Federal Credit Union.

Planning

- The department completed the zoning remapping of the entire city except for the downtown area and completed community workshop and public hearing processes to consider the new zoning map and zoning code.
- The department completed the annual "State of the City" report which is now available on the department's Web site at www.ci.minneapolis.mn.us/planning. In addition, the research section assisted with the capital budgeting, the annual Capital Long-Range Improvements Committee (CLIC) processes and initiated preparation of the Census 2000 as well as participated in the selection of a new Geographical Information System (GIS).
- Public comment was incorporated into the Draft Minneapolis Plan and the draft plan was submitted to the City Planning Commission, City Council and to the Metropolitan Council for informal review.

- During 1998, the department brought over 400 items and reports to Planning Commission meetings including 86 conditional use permits, 45 location and design reviews, 10 HPC designations, 17 requests for rezoning, 49 site plan reviews, 15 text amendments, 31 requests for vacations of streets/alleys, and 32 requests for variances. Also, seven major environmental reviews were completed and three Travel Demand Management Plans were approved in 1998 for downtown projects.
- The department participated in planning processes for several geographical areas within the City, including the Sumner Field Implementation efforts, the Hiawatha Transportation Corridor, the Lyndale Gateway Charrette and Warehouse District Action Plan and Charrette. In addition, staff supported a variety of NRP project implementation initiatives, such as the streetscape designs for Nokomis East Neighborhood Association and the Glenwood Avenue Streetscape, and the Webber/Camden Community/Park/Library Complex.

Police

- Serious crime has been reduced 16 percent under the new CODEFOR (Computer Optimized Deployment Focus
 on Results) initiative. In support of this activity, a "booking van" was used to address the back up of bookings
 at the county jail.
- The department participated with the federal Bureau of Alcohol, Tobacco and Firearms in a gun suppression program that involved the tracing of all firearms and charging cases where appropriate.
- The City, in collaboration with Hennepin and Ramsey County and several cities including St. Paul established a metro team of the StateWide Gang Strike task force. After one year of operation, several federal indictments have been obtained and the activities of major gangs have been materially impacted.
- The CCP/SAFE (Community Crime Prevention/Safety for Everyone) pilot program in the new Fifth Precinct was a success and has set the stage for its total decentralization to other precincts in 1999.
- In 1998, the Automated Pawn System was expanded and finished the year with 25 service agreements with other communities in the metropolitan area.
- An auto theft prevention pilot program was very successful resulting in a 22 percent reduction in vehicles stolen (1,200 less than the previous year).
- The homicide clearance rate continued to improve during 1998 and aggravated assault was down by eight percent.
- A mounted patrol operation was reevaluated and funding to continue the mounted patrol in the Downtown Command is included in the 1999 budget.
- The department worked closely with Hennepin County Courts for the initial design for a community court in the City.
- In 1998, the department was asked to focus its crime reduction efforts in a high crime neighborhood and as a result the neighborhood experienced a 23 percent reduction in reported crime.
- The department was one of six pilot police departments granted a Methamphetamine Prevention grant of \$750,000. Minneapolis' proposal for utilization has become the national model for use by other cities to develop successful strategies to address the methamphetamine threat.

Public Works

- The department requested and received authorization from the citywide capital improvement process for the first in a set of ten annual phases of capital funding requests for increased infrastructure funding. The need for increased annual funding was identified in the State of the Minneapolis Public Infrastructure report, dated July 1997. The report presented the annual gap between the funding that was required to protect the overall infrastructure investment of the City based on expected design life cycles and the current annual capital funding levels.
- Construction of Phase I of the Public Service Node 1 of the Public Works Facilities Plan was completed. This new "Royalston Maintenance Facility" houses the new Police Garage, Radio Shop, and Lands and Buildings functions. Construction of Phase II of Public Service Node 1 of the Plan began in December and will replace the Equipment Services facility and provide a fueling depot.
- The department completed a major planning effort on location of Light Rail Transit alignment and stations in downtown Minneapolis working with downtown residents, business leaders, and agency representatives.
- Workforce Utilization, which converted approximately 150 jobs from the seasonal on-call system to full-time
 positions, was implemented. The benefits of the program, accomplished through months of negotiations with
 the affected bargaining units include: increased flexibility of the workforce, enhanced service delivery,
 additional full-time employment for many employees, and cost savings through a reduction in overtime.
- The department responded to several severe summer storms with Council approved clean-up operations costing approximately \$1,700,000. A Storm Hotline was established to process service requests.
- National Night Out activities were supported by delivering and picking up 1,070 barricades for 535 block parties citywide.
- A part of the Sewer Maintenance Divisions' flood mitigation efforts in 1998 was to install telemetry on critical pump stations. Twenty-nine alarms were installed in pump station control panels to alert Public Works before a problem exists.
- Over \$1.8 million in sidewalk projects equating to 26.5 miles of new or reconstructed sidewalks in Minneapolis were completed.
- A Fire Training Simulator (FTS) project for the Minneapolis Fire Department was completed. This project was the second phase of a Fire Training Campus. The FTS project consisted of the design and construction of a new two level reinforced concrete facility that is used to train fire fighters in fighting live interior structure fires.

ACCOUNTING SYSTEM, BUDGETARY CONTROLS, AND INTERNAL CONTROLS

Accounting System

The accounts of the City are organized on the basis of funds and account groups. Funds are self-balancing sets of accounts recording assets, together with related liabilities and equities. An account group is a financial reporting entity that records assets and liabilities not recorded in funds. The General Long-Term Debt Account Group and the General Fixed Assets Account Group record the long-term debt and fixed assets of the City's governmental funds.

Budgetary Controls

Budgetary control is maintained in compliance with the City Charter, and the Mayor has the responsibility for preparing and submitting a budget to the City Council. Appropriations are required for all funds except agency funds. Appropriation control occurs at the department level within a fund. The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. An encumbrance is a reservation of appropriation authority, based on contractual obligations, prior to an actual expenditure being made.

The City's capital improvement planning and budgeting process is prescribed by a series of Council resolutions and a City ordinance that details a coordinated procedure for proposing, reviewing, adopting, monitoring and evaluating a comprehensive capital improvements program. The responsibilities of the Mayor, the City Council, the CLIC, the City Coordinator, the Financial Planning and Budget Division, and the Planning Commission are set forth and the procedures to assure citizen participation are specified. The ordinance requires CLIC to recommend tax and fee policies to accomplish asset replacement cycles based on a desired asset condition.

The CLIC is a representative advisory organization of 33 citizens who are appointed by the Mayor and the City Council. The organization advises on capital policy and capital improvement program development and recommends proposals and funding level for the City's capital improvement program.

Internal Controls

The City's management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) valuation of costs and benefits requires estimates and judgment by management.

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that adequate internal controls are in place to achieve compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the internal audit staff. As a part of the City's single audit, as described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to expenditures of federal awards. Also, tests are conducted to determine that the City has complied with applicable laws and regulations.

GENERAL GOVERNMENT FUNCTIONS

The general government functions of the primary government consist of the general fund, special revenue funds, debt service funds, and capital projects funds.

General Fund

For the purposes of this presentation and analysis, operating transfers-in have been restated based on their original revenue source, and operating transfers-out have been restated to reflect their ultimate program purpose.

The general fund's primary source of revenue continued to be intergovernmental revenues that produced a little over 40 percent of total revenues. The three largest revenue items in this category were general purpose local government aid of approximately \$56 million (up by one million), homestead and agricultural credit aid of \$13.0 million (unchanged), and \$8.3 million of state aids (down \$0.9 million) to amortize the unfunded pension obligations of three closed retirement plans.

Taxes were significant revenue sources as well, totaling \$85.7 million with less than a percent change. The general property tax contributed \$43.8 million compared to \$43.5 million in 1997; franchise fees were the next largest item at \$19.0 million which was a reduction of \$1.0 million because of a mild winter; fiscal disparities provided \$8.3 million which was an increase of \$0.8 million; and a combination of general property tax and fiscal disparities provided \$8.3 million (down \$0.9 million) to amortize unfunded pension obligations.

Interest income increased by nearly 50 percent primarily as a result of recognition of a net unrealized gain of \$874,000 in connection with adoption of GASB Statement No. 31 as more fully described in the Notes to the Financial Statements.

The following table illustrates general fund revenues and operating transfers-in:

GENERAL FUND REVENUES AND OPERATING TRANSFERS-IN For the years ended December 31, 1997 and 1998

	<u>1998</u>		<u>1997</u>						
Revenues and Transfers	_	Amount nousands)	Percent of Total		Amount 'housands)	Percent of Total	(D	ncrease ecrease) housands)	Percent Change From <u>Prior Year</u>
Taxes	\$	85,714	38.47%	\$	86,137	38.90%	\$	(423)	-0.49%
Licenses and Permits		15,522	6.97%		14,059	6.35%		1,463	10.41%
Intergovernmental Revenues		89,322	40.09%		90,312	40.79%		(990)	-1.10%
Charges for Services and Sales		20,044	9.00%		19,449	8.78%		595	3.06%
Fines and Forfeits		6,321	2.84%		5,929	2.68%		392	6.61%
Special Assessments		2,324	1.04%		2,387	1.08%		(63)	-2.64%
Interest		2,766	1.24%		1,848	0.83%		918	49.68%
Miscellaneous Revenue		811	0.35%		1,308	0.59%		(497)	-38.00%
Totals	\$	222,824	100.00%	\$	221,429	100.00%	\$	1,395	0.63%

The most significant expenditure is for personal services, which includes wages and salaries as well as fringe benefits. When combined with prior year pension costs of \$8.1 million, personal services expenditures total \$162.9 million and are approximately 73.3 percent of the total expenditures of \$222.2 million within the general fund. General fund expenditures for major departments or divisions were as follows: a) Police-\$82.7 million, b) Fire-\$35.7 million, c) Public Works-\$36.5 million, d) Inspections-\$10.5 million, e) Finance-\$5.6 million and f) Licenses and consumer services-\$4.3 million. Combined, these departments and divisions represent 78.9 percent of total general fund expenditures and operating transfersout.

The table on the following page illustrates general fund expenditures and operating transfers out:

GENERAL FUND EXPENDITURES AND OPERATING TRANSFERS-OUT For the years ended December 31, 1997 and 1998

	<u>1998</u>		<u>1997</u>						
Expenditures and Transfers	_	Amount housands)	Percent of Total	_	Amount housands)	Percent of Total	(D	ncrease ecrease) ousands)	Percent Change From <u>Prior Year</u>
General Government	\$	42,873	19.30%	\$	40,613	18.52%	\$	2,260	5.56%
Public Safety		138,540	62.36%		139,097	63.43%		(557)	-0.40%
Highways and Streets		36,568	16.46%		35,130	16.02%		1,438	4.09%
Health and Welfare		3,774	1.70%		3,480	1.59%		294	8.45%
Economic Development		100	0.05%		193	0.09%		(93)	-48.19%
Culture and Recreation		312	0.13%		768	0.35%		(456)	-59.38%
Totals	\$	222,167	100.00%	\$	219,281	100.00%	\$	2,886	1.32%

In the General Government area, the Coordinator's units increased by a net of \$1,411,000 with the largest single increase occurring in Coordinator-Finance which increased by \$667,000. Health and Welfare increased because of a reorganization which "moved" Neighborhood Services from the Coordinator's area to the Health and Family Support Department. Economic Development, while experiencing a large percentage change, had a decrease in transfers from this fund to the MCDA. Similarly, the transfers to the Park Board (which have been recast as Culture and Recreation) decreased in 1998.

Fund Balance at the beginning of the year was restated by \$145,000 as a result of applying GASB Statement No. 31 and the year end fund balance increased by \$680,000 (\$657,000 as a result of operations and a \$23,000 increase in materials and supplies inventory). Consequently, the ending fund balance of \$21,765,000 is within \$40,000 of the City's ten-percent reserve policy.

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are used to finance specified activities as required by law or administrative regulations. Within the City there are eleven special revenue funds as follows: Arena Reserve, Board of Estimate and Taxation, Community Development Agency, Community Development Block Grant, Convention Center, Convention Facilities Reserve, Employee Retirement, Grants-Federal, Grants-Other, Municipal Building Commission and Police.

The Arena Reserve Fund, which was established in 1995 concurrent with the purchase of a downtown sports, entertainment and health complex, has a year-end fund balance of \$3.5 million which represents an increase of \$1.0 million over 1997. The fund balance in the Convention Facilities Reserve Fund increased by \$950,000 for a new total of \$6.1 million and is maintained to assure the ability to meet future costs related to the MCC.

The Convention Center Fund accounts for the maintenance and operation of a City owned convention center. Local option taxes in support of the convention center were \$42.4 million for the year (an increase of 11.0 percent) with approximately \$26.3 million being transferred to debt service or enterprise funds for related debt. The tax rates and collection amounts for 1998 were as follows:

- 1) Sales tax of 0.5 percent-applied citywide: \$24.1 million (up \$2.8 million)
- 2) Entertainment tax of 3 percent applied citywide: \$6.0 million (down \$30,000)
- 3) Lodging tax of 2 percent applied to motels and hotels of 50 units or more: \$2.8 million (up \$240,000)
- 4) Food and liquor taxes of 3 percent each, applied to establishments in the core downtown area: \$9.5 million (up \$1.2 million)

Debt Service Funds

Debt service funds account for the accumulation of resources for, and the payment of interest and principal on, general long-term debt. Within the City there are four debt service funds as follows: Community Development Agency, Development, General Debt Service, and Special Assessment.

The fund balance in the Development Debt Service Fund decreased by \$24.4 million. This decrease resulted from using \$14.0 million of existing funds to currently refund \$31.7 million of bonds and concurrently returning \$11.7 million to MCDA capital projects funds that represented "excess deposits" over the years. Eliminating the effects of the current refunding, the fund balance in the Development Debt Service Fund actually increased by \$1.3 million.

Capital Projects Funds

The three capital projects funds within the City are: Community Development Agency which consists largely of tax increment funded activities, the Municipal Building Commission which accounts for improvements to City Hall, and Permanent Improvement which accounts mainly for infrastructure capital projects of the City. On a combined basis, these three funds accounted for approximately \$99.3 million in revenues and spent \$104 million on capital projects, which was a decrease of \$2.0 million from the year before. Tax increment income in the Community Development Agency Fund was \$59.6 million for the year and represents a decrease of \$0.9 million from the year before.

PROPRIETARY FUND OPERATIONS

Enterprise Funds

Enterprise funds are used to account for self-supporting activities that typically render services on a user charge basis. Minneapolis uses six enterprise funds to account for a variety of operations as follows:

Community Development Agency

Activities of this fund include various low-interest housing programs, as well as a program in which revenue bonds are issued to finance economic development projects. A fairly new activity of this fund involves financing from the Federal Home Loan Bank (FHLB). The FHLB financing is used to provide loans to Minneapolis' businesses for the construction of capital assets. A portion of the interest on the loans is provided to employees of the businesses for down payment and closing-cost assistance to purchase homes in the City. The MCDA is the only development agency nationwide to receive funding authority from the FHLB.

Municipal Parking

This fund accounts for the operation and maintenance of parking ramps and lots, on-street parking, and a municipal impound lot. The City owns 12 parking ramps, 10 surface parking lots, and manages another 3 ramps owned by the Minnesota Department of Transportation. Altogether there are 20,200 parking spaces and 6,000 meters under management. Some of the ramps contain leased space for commercial facilities as well.

The fund had operating income of \$11.3 million for 1998, which was an improvement of \$3.2 million over 1997 operating income. The increase is attributable to higher revenue rates and an increased usage of the parking ramps. During 1998, \$1.3 million was spent on ramp maintenance to keep the ramps safe and up to date. The retained earnings balance for December 31, 1998 improved to \$7.0 million. Construction continued during 1998 on a ramp as part of the downtown K-12 school project that will provide 640 spaces in the Central Business District. Construction has begun on another facility (Greyhound site) that will provide 950 spaces.

River Terminal

This fund accounts for the operation of a public terminal facility located on the Mississippi River. The facility is owned by the City and is managed by an operator under contract with the City as administered by the MCDA. During 1998, 506 barges were handled with such commodities as fertilizers, grain, coal, salt, steel, twine, sand, pipe, sugar beet shreds, and aggregate. Total tonnage shipped (in or out) for the year was 1.08 million tons with 800,000 tons of that shipped by barge.

The MCDA transferred \$500,000 to this fund from its capital projects fund in support of debt service for the facility. As the balance sheet indicates, total debt remaining on this facility is \$880,000 with the last payment scheduled to be made in 1999.

Sewer Rental

As a result of the Metropolitan Reorganization Act passed by the 1994 Minnesota Legislature, the Metropolitan Waste Control Commission (MWCC) on July 1, 1994, became an operating function of the Metropolitan Council and is known as Metropolitan Council Environmental Services (MCES). On January 1, 1970, the MCES assumed ownership of local government sewage interceptor and treatment facilities and credited each municipality with an amount equal to the current value of their facilities. The current value plus interest at 4.0 percent per annum was spread over 30 years and the annual credit is approximately \$1.4 million and will expire at the end of the year 2000. This activity is reflected in the Sewer Rental Fund. This fund also accounts for storm water management activities including the Combined Sewer Overflow (CSO) Program, which will separate the remaining storm sewer lines still connected to sanitary sewer lines.

During 1998, the City embarked on a \$71.9 million nine-year flood-control program. This program targets specific areas in the City and creates holding ponds and additional storm drains that are designed to mitigate the effects of flash floods. The 1998 balance sheet reflects an additional \$6.1 million of public improvements capitalized as a result of the CSO and Flood Control program.

The City began in 1998 to convert to a new utility billing system that will be placed in service in 1999. The Municipal Utility Package System (MUPS) will cost \$3.1 million and the Sewer Rental Fund will contribute \$1.2 million to the project.

The fund had operating income of \$11.3 million in 1998 as compared to \$4.9 million in 1997. Revenues for sewage service increased by \$4.7 million and operating expenses decreased by \$1.8 million. Net income for the fund was \$10.1 million in 1998 as compared to \$2.5 million for 1997.

Solid Waste and Recycling

This fund was established in 1994 to account for solid waste collection, and disposal/recycling activities of the City. Prior to that time, these activities were accounted for within the general fund. The Solid Waste Division of the Public Works Department provides weekly trash pickup, bi-weekly recycling and yard waste pickup, and operates a solid waste transfer station for over 108,000 households. City crews provide approximately one-half of the solid waste collection service and the other half of the service is provided through a contract with a consortium of companies specializing in waste collection. There were no rate increases in 1998 for solid waste and recycling services and the fund achieved operating income of \$875,000.

Water Works

This fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City's water delivery systems are capable of providing 180 million gallons of treated water daily. The City, in 1998, sold water directly to seven suburban communities as follows; Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, and Edina. Such sales amounted to \$6.6 million, or 15.0 percent of total sales of \$44.1 million.

The City began a five-year program in late 1991 to replace over 100,000 water meters with a telephone operated Automatic Meter Reading System (AMRS). By the end of 1998, over 89,000 meters had been replaced providing for more efficient, accurate, and timely billings. The original five-year program has been extended and expanded to address apartment buildings and commercial operations that were not included in the first phase of the project. The second phase is scheduled to be completed in the year 2000. For customers whose meters are on AMRS, conversion to monthly billings instead of quarterly billings began in 1995. To date, over 91,000 accounts have been converted to monthly billing. Operating income in the fund for 1998 was \$8.7 million as compared to \$7.0 million for 1997. For the year 1998, operating revenue increased by \$4.6 over 1997 and operating expense increased \$2.9 over 1997.

The City began a five-year program in 1998 that is referred to as "Supervisor Control and Data Acquisition" (SCADA). The SCADA program has a total cost of \$10.5 million and will automate the water control system from one point so that all gates, pumps, monitors, and controls will be in one controlled area. This will make the operation and water delivery system more efficient and cost effective. The City began the Hilltop 40 million gallon finished water reservoir in 1998 for a five-year program with a projected total cost of \$18.6 million. Also, and as described earlier, the City is installing MUPS and this fund's share of the cost will be \$1.2 million.

Internal Service Funds

The City uses six internal service funds to account for a variety of services provided by one department to another or to account for internal activities of the City. Within internal service funds, rate setting policies and practices will continue to be reviewed to make certain that the cost of the service is being appropriately recovered and that replacement reserves, if applicable, are being created. Strategies will be developed to eliminate deficits in several funds as a part of the 1999 budget process.

Engineering Materials and Testing

This fund accounts for the operations of the City's asphalt plant and the Engineering Materials Testing operation. The plant was established during the 1930's with a mission to produce high quality bituminous products in a cost effective and timely manner for the Department of Public Works construction/maintenance operations. The asphalt plant also provides a disposal site for rubble asphalt pavement generated from City construction projects which ultimately reduces disposal fees and trucking costs. The plant recycles this material into new bituminous mixes enabling favorable pricing of the finished product.

In May of 1997, the City Council adopted a Paving Products Study which suggested exploring other options to fulfill the City's need for concrete products if that plant, which has been "mothballed" for two years, could not become more cost efficient. The City has continued to explore other alternatives to obtaining concrete for its operations. As a result of the same study it was recommended to continue to operate and expand the customer base of the asphalt plant and the Engineering Materials Testing operations. The City has established a \$1.0 million reserve for renewal and replacement of various facilities associated with this fund. For 1998, the fund had an operating loss of (\$186,000) but maintained a positive cash position of \$1.3 million

Intergovernmental Services

This fund accounts for the operations of ITS, which includes telephones as well as the City Clerk's central mailing and printing services. The fund had a net loss for the year of (\$2.9 million) after operating transfers which are in lieu of billing individual departments directly for some of the services provided by ITS.

Lands and Buildings

This fund accounts for the physical management and maintenance of fire stations, police precinct buildings, the Public Service Center and various other City office locations (except City Hall which is accounted for within the Municipal Building Commission Special Revenue Fund). At year-end the fund had a deficit in retained earnings of (\$1.3 million) on an operating loss of (\$474,000).

Permanent Improvement Equipment

This fund accounts for the ownership and operation of a fleet of approximately 1,200 pieces of motorized equipment/vehicles, 400 vehicle accessories, and over 3,000 pieces of radio communications equipment representing a total investment of \$39.2 million. The fund operates as a rental agent to various departments and in support of such diverse operations as construction and maintenance of City infrastructure, fire protection, and police services. The primary revenue source for this fund is rental of equipment, which was approximately \$14.4 million in 1998.

Implementation of recommendations from a prior fleet study continue and during 1998, the fleet size was reduced by a net of 75 units and an increase in fleet value of \$3.4 million as a result of acquisitions. These trends are programmed to continue for two additional years to upgrade the overall fleet. Also, groundbreaking took place for a 120,000 square foot fleet maintenance facility. Phase I, which includes 60,000 square feet of shop space, along with administrative offices is expected to be completed in September 1999. Phase II, including storage-facilities, parking and landscaping is scheduled for completion in the year 2000. In 1998 the fund experienced an operating loss of (\$4.7 million) and a net loss of (\$5.1 million).

Public Works Stores

This fund, which was established in 1965, accounts for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services (Central Stores). The mission is to provide these items in a cost effective and timely manner through bulk purchasing and to ensure that all products and clothing comply with City standards and safety requirements. Traffic Stores, another component of this fund, was established in 1972 to provide stocked inventory items and materials for assembly of specialized equipment within the Transportation Division of the Public Works Department. Other departments also utilize its services, when unique items or equipment are needed. For the year 1998, the fund had an operating income of \$328,000.

A Central Stores Redesign Project (study) was completed in June of 1998 and the main findings of the study were:

- It is cost effective to purchase office supplies through Central Stores.
- An inventory of Public Works goods and supplies should be required.
- Customers of Central Stores are generally very satisfied with the service.

The study provided eight recommendations that are being implemented.

Self-Insurance

This fund accounts for employee medical, dental, and life insurance benefits programs and the programs' administrative costs. The fund also accounts for occupational health services, specifically employment services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, a tort liability program, and a workers' compensation program.

For 1998, the self-insured workers' compensation program included the BET, the MBC, and all City departments. Expenses for the City's Workers' Compensation program in 1998 were \$6.1 million. The City purchases excess insurance per State requirements from the Workers' Compensation Reinsurance Association (WCRA). The City currently has thirty open claims that have exceeded the retention limits and represent a potential for future reimbursement from the WCRA. The Library Board, the MCDA and the Park Board maintained their own workers' compensation programs.

The City and the BET are self-insured for tort liability while the MCDA, Library Board, Park Board, and MBC maintain their own liability programs. With the creation of the Tort Staff Claims Committee in June of 1998, 539 claims were filed and 146 were paid. There were only two appeals that went before the City Council's Claims Committee. Total claims paid out for this year through the Committee were \$303,000. Total litigation settlement dollars paid amounted to \$1.6 million.

The City periodically engages an actuary to review the City's self-insurance programs. Such reviews estimate outstanding losses, project the ultimate losses and recommend overall funding each year. Internal insurance premiums, in lieu of operating transfers, were applied during 1998. At year-end the deficit in retained earnings was (\$26.6 million) and unpaid claims payable as actuarially determined were \$20.1 million. The fund as a whole had an operating loss of (\$4.0 million) for the year, and a net loss (before operating transfers) of (\$2.0 million). After operating transfers, the fund had a net loss of (\$1.6 million) for the year.

FIDUCIARY FUNDS

Agency Funds

The City uses three agency funds to account for assets held by the City in a trustee or similar capacity: Community Development Agency, Minneapolis Agency, and Skyway Debt Service.

The Community Development Agency Fund includes the ticket proceeds for two theaters owned by the MCDA and operated by a manager under contract. At year-end there were \$1.6 million in ticket proceeds recorded as deposits held for others for future events with \$0.6 million of that amount advanced to promoters of major productions but secured by letters of credit. The Minneapolis Agency Fund serves essentially as a payroll revolving fund for net pay and payroll associated liabilities.

GENERAL FIXED ASSETS

The general fixed assets account group accounts for the fixed assets of the City that are not accounted for in either an enterprise or an internal service fund. Asset values are stated at historical cost and no depreciation is recorded. Assets exclude the City's investment in infrastructure (for example, streets and bridges) in accordance with GASB standards. The City's total investment in general fixed assets at year-end was \$471 million.

CAPITAL PROGRAM INITIATIVES

In connection with adoption of a 1998 capital and operating budget, the City also adopted a nine-year flood mitigation program totaling approximately \$71.9 million and a seven-year water works capital program totaling approximately \$72.9 million. The programs will be financed through a combination of bond sales, reimbursable work for others, enterprise fund revenues, and other agency (including federal) grants. The flood mitigation program is partly in response to serious localized flooding and includes acquisition of properties in areas prone to flooding, construction of holding ponds, and construction of new storm drains. The water works capital program will involve improving existing facilities as well as construction of a new 40 million gallon finished water reservoir. Another significant initiative includes a 1997-2001 program to reconstruct Hiawatha Avenue from near downtown Minneapolis to the southern border at a total cost of \$91.2 million (95 percent federal and state pass through) to replace a roadway that is deficient from a geometric and structural standpoint and to accommodate future light rail transit construction.

DEBT ADMINISTRATION

The data for the City's general obligation debt at the end of fiscal year 1998 are as follows:

General Obligation Bonds	Gross Debt Less Sinking Funds		Ratio of Debt to Present Market Value	Debt per <u>Capita</u>	
Property Tax Supported	\$	70,026	0.46%	\$ 190	
Self-Supporting		686,812	4.49%	1,864	
Overlapping Jurisdictions		227,987	1.49%	619	
Totals	\$	984,825	6.44%	\$ 2,673	

The ratio of net bonded debt to market valuation (\$15,284,334,000) and the amount of bonded debt per capita (368,383) are indicators of the City's debt position for municipal managers, citizens, and investors. Of the total City general obligation debt outstanding, 91 percent is considered to be self-supporting from revenues other than general property taxes (primarily convention center and related facilities, municipal parking, tax increment, water and sewer, special assessment, and mortgage revenue bonds).

The City maintains a debt management policy that is based, in part, on a debt/revenue ratio approach. Consequently, as the City's discretionary, or nondedicated, revenues change, the amount of discretionary revenue committed to debt service on tax-supported bonds should also vary. One of the policy goals is that the proportion of discretionary revenue dedicated to tax-supported debt service be kept at a level where adequate funds will remain to finance the City's essential services. For 1998, the percent of discretionary revenues used to support debt was 7.19%, which was down slightly from 7.24% from the year before.

Also, the City participates in a Joint Debt Committee to promote the exchange of information concerning the debt issuance plans of the participating governments over a five-year planning horizon. The City, the Minneapolis Special School District No. 1, and Hennepin County share in whole, or in part, the same property tax base and the Joint Debt Committee plans to meet three or four times per year to develop a better perspective on the debt issuance levels for participating governments. In addition, participants intend to coordinate the amount and timing of future debt issues.

The Supplemental and Statistical Sections of this report present more detailed information about the debt of the City and the table on the following page lists general obligation bonds issued during the past three years:

GENERAL OBLIGATION BONDS ISSUED THE LAST THREE YEARS

Date of Issue	Amount (In Thousands)	Purpose	Average Life in Years	Effective Interest Rate	Interest per Borrowed Dollar (in Cents)
1/15/96	67,555	Refunding	18.8	5.24	97
2/6/96	2,535	Remarketing	9.9	4.82	47
2/6/96	16,000	Remarketing	9.9	CABS**	60
6/1/96	2,315	Assessment	10.3	5.36	56
6/13/96	28,200	Multi-Purpose	5.2	Variable*	-
6/19/97	8,500	Fleet & Facilities	5.5	Variable*	-
6/19/97	24,000	Multi-Purpose	6.1	Variable*	-
7/1/97	2,965	Assessment	9.9	5.02	50
2/1/98	18,530	Refunding	3.7	3.67	17
6/25/98	38,000	Multi-Purpose	4.5	Variable*	-
7/1/98	15,000	Multi-Purpose	6.5	4.32	29
8/1/98	2,640	Development	12.3	Variable*	-
11/1/98	3,000	Multi-Purpose	4.0	4.02	15
11/1/98	61,400	Refunding	13.0	4.67	63
11/1/98	19,200	Parking Ramp	23.3	4.91	110

^{*}The variable rate is set once a week by the Remarketing Agent to enable the bonds to be sold at par in the secondary market. Rates for 1998 ranged from 2.75 percent to 4.15 percent.

Bond Rating

The City's general obligation bonds continue to have the highest possible ratings, which they have carried since 1961:

	Moody's Investor's Service	Standard & Poor's
General Obligation Bonds:	Aaa	AAA

RETIREMENT PLANS

Employees are covered by one of the following retirement plans as more fully described in the Notes to the Financial Statements:

<u>Plan</u>	Date of Employment
The Minneapolis Fire Department Relief Association (MFDRA) The Minneapolis Police Relief Association (MPRA) Public Employees Retirement Fund-Police and Fire Fund (PEPFF) Minneapolis Employees Retirement Fund (MERF) Public Employees Retirement Fund- (PERF-Coordinated) Union Central Life Insurance Company- (MCDA Employees)	Before June 15, 1980 Before June 15, 1980 After June 15, 1980 Before June 30, 1978 After June 30, 1978 All years

^{**}Each maturity of Capital Appreciation Bonds (CABs) has its own semi-annual internal compounding interest rate.

The MFDRA, the MPRA, and MERF have historically had unfunded liabilities as determined by consulting actuaries. However, based on state legislation, MFDRA and MPRA must be fully funded by the year 2010 and MERF must be fully funded by the year 2020.

RISK MANAGEMENT

In 1987, the City officially adopted a program of self-insurance for property and third party liability. In 1988, the City adopted an Occupational Health and Safety Policy and Program and has made continued emphasis of the program a high priority. A risk management review was completed in November 1996, and as a result of the review, all personnel now working in the risk management disciplines of risk financing, claims administration and loss prevention have been consolidated into a new Risk Management Division of the Finance Department. The review made several recommendations relative to: risk management staffing, structure and reporting relationships; approaches to tort defense and settlement of claims; accountability of managers for losses occurring in their departments; and adopting the cost of risk as a measure of city-wide risk management performance.

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its CAFR for the fiscal year ended December 31, 1997. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest professional standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of only one year. The City has received a Certificate of Achievement for the last twenty-nine consecutive years (fiscal years ended 1969-1997). We believe the City's current report continues to conform to Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgments

The preparation of this CAFR was accomplished through the combined efforts of the staff of the Finance Department and staff at the MCDA, the Park Board, and the Library Board. Special recognition is given to Mary Fox-Stroman, Manager of Accounting, whose overall service in preparation of the CAFR is greatly appreciated. The Mayor and City Council Members have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly valued and essential for continuous improvement in the City's financial policies and procedures.

Respectfully submitted,

Herbert Hoke, Director of Accounting

Director of Accounting Finance Officer

John Moir,